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SUBJECT: RUSSIA: CENTER-REGIONAL RELATIONS UNDER STRESS

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11. (SBU) SUMMARY. Federal-local relations in Russia are under increasing stress due to the implementation of the Local Self-Government Law of 2003. This law cuts the flow of tax dollars to regional and local government in order to spur the localities to become entrepreneurial in developing their own tax base. The local governments, especially cities, complain that while they are the engines of growth that create the tax revenue "hoarded" by Moscow, they are being left with unfunded mandates by the federal government. A report to be delivered to the Public Chamber on September 30 describes in detail the deficiencies of the federal law. Moscow appears to be using the new law to reinforce its central power and keep the cities politically subdued. END SUMMARY.

12. (U) Local, national, and private-sector representatives held a press conference on September 21 in Moscow to describe the growing conflict in federal-local relations in Russia. The participants included the mayors of Rostov-on-Don and Nizhny Novgorod, a member of the State Duma Budget and Tax Committee, and Vyacheslav Glazyshev, an academic and member of the Public Chamber.

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FEDERAL LAW 131: REFORMING MUNICIPAL RELATIONSHIPS  
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13. (SBU) Federal Law 131 of 2003 (FL-131), which took effect in January 2006, restructured local self-government and municipal structures throughout Russia. In a detailed report that will be presented to the Social Chamber on September 30, Professor Vyacheslav Glazyshev describes the history of the law, its implementation, and its intended and unintended consequences. Glazyshev claims that to properly implement the 167-page law, the federal government should provide 300 billion rubles, but has only budgeted 15 million. This leaves cash-starved cities on the front lines of receiving complaints from their citizens. Glazyshev writes that this is an "anti-urban" law that leaves cities subordinate to less populated municipal districts in a vertical hierarchy. For example, the city of Murom (pop. 132,000) has been subjugated to the Murom municipal district (additional pop. 16,000).

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MAYORS: MOSCOW MAKES US CHOOSE BETWEEN ROADS AND HOSPITALS  
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14. (SBU) The Mayors complained that Moscow had cut the flow of tax revenue to local levels, rendering them unable to provide basic services, but nevertheless leaving them with the responsibility (and the blame). Mayor Bulavinov of Nizhny Novgorod said that this year he was forced to choose between funding road repairs and funding hospitals. Mayor Chernyshov of Rostov-on-Don said that his choices were between street lighting and kindergartens. The common

refrain was that while cities were the generators of wealth, they were treated like beggars when they sought access to tax revenues.

15. (SBU) Anecdotal evidence compiled by Glazyshev shows that many cities must now transfer 80% of their property tax revenue up to the regional authorities, who take a cut before passing it on to Moscow. Other examples included towns that were forced to shut their medical clinics, budgets being slashed by 50 to 80 percent, streetlights left dark, and cities forced to sell land and public buildings to raise funds. This makes life even harder for those city-dwellers hurt by last year's monetization of benefits. The mayors at the forum and those quoted in Glazyshev's reports speak of both the social costs of these cuts and the growing discontent among their citizens.

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MOSCOW TO REGIONS: WE'LL GIVE YOU MONEY  
IF YOU CAN SHOW THAT YOU DON'T NEED IT  
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16. (U) Dmitry Kozak, the plenipotentiary presidential representative (PolPred) in the Southern Federal District (which includes Rostov-on-Don), said in an interview earlier this year that the federal government was trying to help the cities and regions become more "responsible" and self-sufficient. "If local authorities work effectively...they should be granted greater freedom and independence. However, if they mostly rely on subsidies (i.e., tax revenue from the federal government)...they should have less independence and freedom and should be more controlled by the state." He then added that those territories with high economic growth rates and who do not

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rely on federal tax revenue should be given a bonus by the state as a reward. This economic incentive will spur the other regions to become more efficient.

17. (U) Kozak, who was the architect of FL-131 (reftel) and is now overseeing its implementation in the Southern Federal District, refused to respond to the authors of the report, according to Glazyshev. Glazyshev accused Kozak of being disdainful of local authorities and to those who complained about the law's effects. In his interview, Kozak argued that one should not expect immediate results or for everyone to like the changes (all reforms hurt), but that the law was necessary and ultimately good for the cities and the country. He defended the drastic budget cuts by saying that without serious motivation, the local authorities would become lazy, develop a "parasitic attitude," and discredit the role of government in general among citizens. This, he said, would in turn generate "social apathy or political extremism."

18. (SBU) COMMENT: The distribution of resources and power between the center and the periphery is a struggle over governance and control in this vast country. Through the implementation of FL-131, Moscow is strengthening its position at the top of a "vertical of power." The effects of the 2003 law are now beginning to be seen, and as the cities feel the pinch of the budget cuts, we expect the tension to worsen and the complaints of the cities to grow louder. END COMMENT.  
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